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To the Market Advisory Committee

Follow-up questions on "Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California," June 1, 2007 draft report

Dear Dr. Goulder and Committee members:

Following up on our brief discussion at today's meeting, I believe that the Committee's stated policy rationale for cap-and-trade (Section 2.1 in the draft report) is based, to some extent, on academic idealizations that do not adequately reflect the real-world performance of cap-and-trade systems. The Committee should be able to address the following two questions in its policy recommendations to CARB:

(1) Under the premise that the AB 32 emission cap is feasible and cost-effective, how would the emissions-reduction performance of the recommended cap-and-trade program be expected to compare to that of a carbon tax with a tax rate set to achieve maximum feasible and cost-effective emissions reductions?

(2) Would the Committee's recommended cap-and-trade program guarantee achievement of the cap unconditionally (i.e., at any cost)?

Sincerely,

Kenneth C. Johnson